

14 August 1957

MEMORANDUM FOR: Director of Central Intelligence
THROUGH : Deputy Director (Support) *Answer 16 Aug 57*
SUBJECT : Audit Staff - Report to Director of Central Intelligence
for Fiscal Year Ended 30 June 1957

GENERAL

25X1A 1. Audit coverage of Agency funds and property continued to improve during the fiscal year ended 30 June 1957. Principal accomplishments at Headquarters included (a) annual audits of proprietary projects and financial accounts, including reviews of applicable procedures, controls and practices, (b) audits of property records that were in condition to audit, and (c) comprehensive surveys of Agency control over funds advanced to subsidy projects and of budgetary accounting procedures. In the field, all Class A stations except [redacted] and the two in the WH area were audited at least once and most of them twice. Reports of audits requesting corrective action have received prompt attention from appropriate officials both in the field and at Headquarters.

2. Although the audit coverage in fiscal year 1957 was the most complete yet attained, the fulfillment of the audit program deemed desirable by the Chief, Audit Staff, was not accomplished due to the inability of maintaining the Audit Staff at its authorized strength. Mainly the effect of the reduced staff was reflected in the postponement of contemplated surveys, curtailment of certain audit activities, and failure to annually inspect Class B stations.

3. The audit work performed indicated continued improvement in accounting for Agency assets. There has been marked improvement in the condition of the financial accounts and related procedures at Headquarters and we feel that Audit Staff recommendations have contributed materially to this improvement. The principal trouble area, both at Headquarters and overseas, continues to be property records and controls. A meeting was held recently with the Director of Logistics and appropriate members of his staff to discuss these matters. Steps are being taken by the Director of Logistics to strengthen the Inventory and Inspection Staff which should do much to improve this situation at Headquarters. Also, financial property accountability is in process of being established at certain field stations which should help solve the problem there.

AUDIT ORGANIZATION

4. No change was made in the fiscal year 1957 in the basic organization of the Audit Staff, consisting of the Office of the Chief, the Headquarters Audit Division, and three field audit units. Plans to establish a field unit

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in [REDACTED] to serve the WH area (the only area not so served) had to be deferred; two auditors selected to head the unit were rejected for medical reasons and the third on account of his wife's health. It is now planned to open the office in the Spring of 1958. The two Class A stations in the area will be audited in September 1957 by auditors from Headquarters.

5. The Audit Staff lost several senior auditors during the year and has been able to replace only one. Personnel are in process of clearance for the several existing vacancies but mostly at the junior level since good senior auditors are hard to recruit. Also, based on our previous experience, the majority of the applicants in process probably will take other positions prior to final clearance. Because of the keen competition for auditors, we have not yet been able to bring the on-duty strength of the Audit Staff up to the 49 position ceiling.

AUDIT ACCOMPLISHMENTS - HEADQUARTERS

Proprietary Projects

6. Audits of proprietary projects during the fiscal year 1957 disclosed no major deficiencies and indicated continued improvement in Agency management and control over such projects. Discrepancies and procedural weaknesses noted were reported to appropriate officials for corrective action.

7. All proprietary projects due for audit in the fiscal year (on the basis of annual audits) were audited (53 audits) or were in process of audit at the end of the year (2 audits) except for nine. The latter were deferred; two awaiting closing of books, four because of relatively small Agency outlay, and three in order to have audits coincide with the projects' fiscal years. Audits were made at the site by Agency auditors unless precluded by security or other reasons, in which cases site audits were made by public accountants or the books and records were brought to Headquarters for audit.

Subsidy Projects

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8. The audit program for [REDACTED] controlled by Headquarters includes (a) an annual review of such projects to determine whether site audits are feasible and security permits, (b) annual site audits, usually by unwitting public accountants, of those projects for which such audits are feasible and security permits (only seven such audits were made in the fiscal year 1957), and (c) a test audit at Headquarters, including reviews of Administrative Plans and of financial statements submitted by projects, of a representative number of projects in connection with annual audits of the Agency accounts in which advances to projects are recorded. Reports on individual projects audited in the fiscal year 1957 and one covering both the accounts and project test audits were submitted to appropriate officials.

9. During the year the Audit Staff completed its overall survey (mentioned in our prior report) to determine the adequacy of Agency controls over funds

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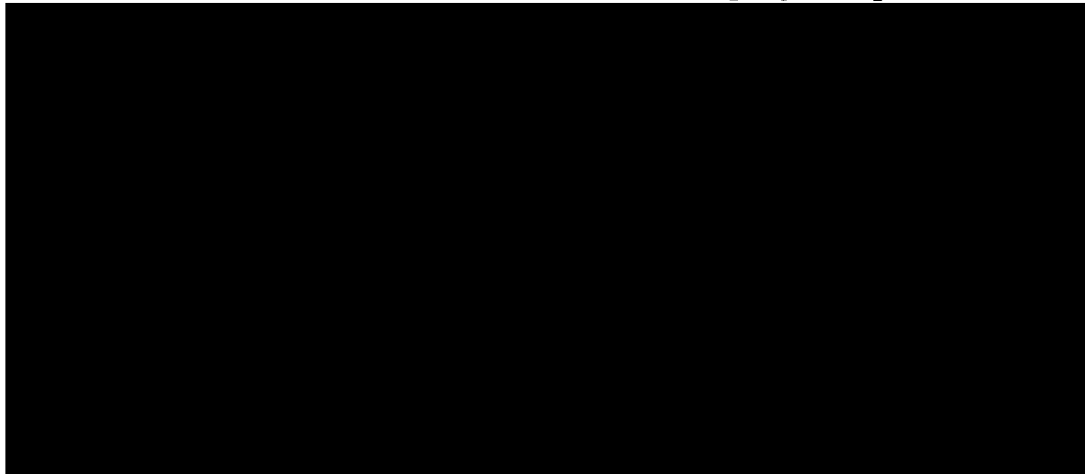
advanced to and expended by subsidy projects controlled by Headquarters. The general conclusion reached after studying the survey results is that the real control over [REDACTED] programs depends on the extent of supervision and review given the project by operating personnel. The survey results are summarized as follows:

- a. Generally the measures prescribed to control funds advanced subsidy projects are adequate considering the nature of the projects and security requirements. These control measures consist of: (a) approval of the project by the Director of Central Intelligence or officials designated by him, (b) detailed budgeting, (c) obtaining of receipts from the project for funds advanced, (d) requirement that the project submit financial statements showing receipt and use of funds where practicable and security permits, (e) review of statements by operating personnel and their certification that funds have been expended for the purpose of the project, (f) placement of staff or contract agents in projects in some instances, and (g) audit of [REDACTED] organizations in some cases.

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- b. Certain weaknesses in the controls are recognized in that there are no means by which an auditor or other interested personnel at Headquarters can definitely determine that signed receipts, evidencing receipt of funds by the projects, are bona fide, or that the financial statements submitted actually reflect the true project operations. Suggestions have been made for tightening the receipt procedures by designating authorized recipients, where possible, and requiring sample signatures. The correctness of financial statements can be determined only by an audit of the books or, in a general way, by a careful review of the statements by someone thoroughly familiar with the project operations.

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- d. In view of the limitations placed on site audits of funds advanced to subsidy projects because of security and other factors, the most important control is the obtaining of informative or detailed financial statements showing the disposition of the funds and the thorough and objective review of these statements currently by appropriate operating personnel familiar with the project operations.

Projects Other Than Proprietary or Subsidy (Those for Which Detailed Accountings Are Required)

10. The policy is to annually test audit at Headquarters a representative number of such projects in connection with the audit of the Agency account in which advances to these projects are recorded. In addition, audits of individual projects are made when circumstances warrant. This program was carried out in the fiscal year 1957 and reports released to appropriate Agency components.

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Financial Accounts and Procedures

12. The audit of Agency financial accounts, including property financial accounts, was current as of 30 June 1957. The annual audit of these accounts includes reviews of procedures, controls and practices affecting the financial operations recorded as well as test checking account transactions and balances. There has been continued improvement in the condition of the accounts and related procedures. We feel that our recommendations have contributed materially to this improvement.

13. The improvements noted above have enabled the Audit Staff to streamline certain work and broaden its scope of operations. A survey was made of budgetary accounting procedures which disclosed inadequate allotment records in certain area divisions, substantial amounts of overobligations, substantial overstatements of unliquidated obligations for fiscal years 1955 and 1956, and a need for a handbook on allotment accounting procedures. These matters are under review by appropriate officials. A survey of payroll procedures and records is in process and other surveys of this type are planned.

Property

14. In accordance with the Audit Staff program of broadening its scope of operations, emphasis has been changed from audits of individual property "in-stock" and "in-use" accounts to procedural surveys and comprehensive overall surveys of property management with necessary test checking of applicable individual accounts. In this connection a survey of Agency procurement procedures and practices is in process.

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25X1A6a 15. The audit of Agency property records as of 30 June 1957 was satisfactory except for certain records that were not in condition to audit, i.e., real property, Material Group V - Communications at the [REDACTED] 25X1A6a [REDACTED] and Building Supply Officer account. Real property records are not current. An inventory of Group V has been postponed by the Office of Logistics until October 1957 (the last one was in January 1954) because of the rewarehousing program. The Building Supply Officer Account, which is probably the largest and most complex property in-use account, has not been inventoried and there is some question whether an inventory in the near future is practicable.

16. The inventorying of property has fallen behind schedule because of shortage of personnel in the Inventory and Inspection Staff in the Office of Logistics. In our last report we mentioned that this staff, with its mission of (a) internal review of property procedures and regulations and their application, (b) supervision of inventory of "in-stock" and "in-use" property on a regulated schedule and the reconciliation of inventory results with accountable records, and (c) serving as technical advisors on problems relating to property accountability, should do much to improve property procedures and records. We understand that steps are now being taken to bring this staff up to strength.

17. Other matters of general interest requiring attention which our audits disclosed are: (a) the processing of Consolidated Memorandum Receipts for property in possession of or under control of Detached Stations and certain Headquarters Controlled Activities is not on a current basis, (b) only limited progress had been made in bringing non-expendable property of Detached Stations and certain Headquarters Controlled Activities under financial control on Agency records (procedures are now in process to accomplish this for Detached Stations) (c) the need for a uniform procedure to control the receipt and issue of fuel and lubricants, and (d) the need for more adequate control over Agency property in the hands of contractors. These matters were reported to, and discussed with, the Director of Logistics and appropriate members of his staff. Also, items (b) and (d) have been brought to the attention of the Technical Accounting Staff and Industrial Contracts Audit Branch, respectively, of the Office of Comptroller for their participation in action to be taken.

Industrial Contracts

18. The Audit Staff is responsible for the review of audit reports, techniques and procedures of the Industrial Contracts Audit Branch, Office of Comptroller. Except for reviewing audit reports and participating in decisions concerning the limitation of audit of contracts, this function was curtailed during the fiscal year 1957. An overall survey of the operation of the Branch is scheduled for this Fall.

Other Audits

19. Seven non-appropriated fund activities were audited during the fiscal year 1957. Annual audits were made of the Government Employees Health Association, Inc., Consolidated Charities Committee, CIA Welfare Assistance

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Board, Public Service Aid Society, Executive Dining Room, and the Potomac Recreation Association. Quarterly audits as required by law were made of the Northwest Federal Credit Union.

20. Included in our reports of audit were suggestions for the improvement of accounting controls and procedures, requests for compliance with the by-laws or charters of the activities, and suggestions for amendment of the by-laws or charters.

AUDIT ACCOMPLISHMENTS - OVERSEAS

21. The goal of semi-annual site audits of all Class A stations (stations having certifying officers) and annual inspections of all Class B stations was not attained in the fiscal year 1957. However, with the increase of one auditor in the [REDACTED] Audit Unit in June and an adjustment of the programs in other areas, we believe the goal is attainable in 1958.

22. During the second half of the fiscal year, all Class A stations in all areas except WH were audited or were in process of audit at the end of the year except for five [REDACTED]. Four of these five had been audited during the first half of the year and are scheduled for audit again early in 1958. The fifth [REDACTED] is scheduled for audit in September; unsettled local conditions forced postponement of audits of this station during the past year. As mentioned earlier, audits of the two Class A stations in WH will be started in September by auditors from Headquarters.

23. Class B station accountings are audited at Headquarters after certification by the Finance Division, except for accountings of the 13 [REDACTED] stations which are certified at [REDACTED] and audited there by field auditors. In addition, annual site inspections of all Class B stations are a part of the field audit program. During the fiscal year 1957 this part of the field program met some difficulties. Shortage of auditors in the [REDACTED] Audit Unit caused postponement of the annual inspections of the [REDACTED]. These had been inspected during the calendar year 1956. Scheduling problems caused by absence of station personnel and difficulty of obtaining hotel space during the Spring caused deferment of six inspections by the [REDACTED] Audit Unit. All of the deferred inspections are scheduled for this Fall.

24. The audits and inspections of field stations disclosed no cases of fraud or serious losses, the principal irregularities being procedural deficiencies and accounting errors. A shortage of approximately \$1,000 disclosed by a cash count by [REDACTED] Station personnel is being investigated by the Inspector General. Cash on hand at field stations generally was under good control; however, there were a few instances where someone other than the custodian had access to the cash box, in violation of Agency regulations on the subject. The authenticity of agents' receipts cannot be verified and,

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as reported previously, this represents the weakest facet of our fund accounting program. Protection of Agency assets in these cases depends mainly on the honesty of case officers and the supervision exercised by the chiefs of stations. Although there has been improvement generally in property records and controls, these matters still pose a problem in some stations. Reports of field audits requesting corrective action by the station and/or Headquarters are receiving prompt attention from appropriate officials.

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Chief, Audit Staff

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